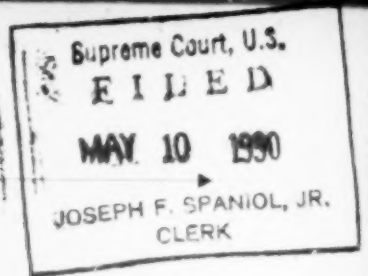


No. 89-1666



IN THE  
**SUPREME COURT OF THE UNITED STATES**

OCTOBER TERM, 1989

J. M. SMITH CORPORATION, d b a  
SMITH DATA PROCESSING, *Petitioner,*

*v.*

pc I CORP.; HILL PHARMACY GROUP, INC.;  
KENNETH A. HILL; W. K. ENTERPRISES, INC.;  
WES KING; RICHIE S. LYNN, d b a  
RICH-2 PHARMACY CONSULTING SERVICES;  
PROFESSIONAL SYSTEMS S.E., INC.;  
A. RODNEY ASHBAUGH; and  
DR. T. C. SMITH COMPANY, *Respondents.*

On Petition for Writ of Certiori  
to the United States Court of Appeals  
for the Fourth Circuit

**Respondents' Brief in Opposition  
to Petition for Writ of Certiorari**

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May 10, 1990

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## QUESTIONS PRESENTED FOR REVIEW

1. Should the Supreme Court grant a Petition which is neither accurate nor clear, in contravention of Supreme Court Rule 21.5?

2. Should the Supreme Court grant a Petition that seeks review solely of a question of law, when the pertinence of that question to resolution of the case is entirely dependent on reversal of an adverse ruling on an *evidentiary matter* that is *not* presented to the Court for review?

3. Should the Supreme Court grant a Petition to review whether a Settlement Agreement, which releases the very claim of inclusion of Plaintiff's material in the challenged work, precludes a later claim that such material *was* at that time included in the challenged work, such claim being the obvious predicate for Petitioner's derivative work contention?

4. Should the Supreme Court grant a Petition that seeks a determination whether any copyright derivative rights can ever be granted without explicit transfer in writing, when the pertinent statute itself, 17 U.S.C. § 201(d), specifically says that such a transfer may be made "by operation of law," and the lower courts have uniformly held that *implied* licenses can be made?

5. Should the Supreme Court grant a Petition that demonstrates none of the factors under Supreme Court Rule 17.1 are present?

6. Should the Supreme Court award Respondents as damages their attorneys' fees and expenses for preparing and presenting this Brief under Supreme Court Rule 49.2, because the Petition is frivolous?

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**STATUTE INVOLVED**

17 U.S.C. § 201(d):

**Transfer of ownership.** (1) The ownership of a copy-  
right may be transferred in whole or in part by any  
means of conveyance or by operation of law . . . .

(2) Any of the exclusive rights comprised in a copy-  
right, including any subdivision of any of the rights

specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all the protection and remedies accorded to the copyright owner by this title.

## SUMMARY OF ARGUMENT

The Petition for Writ of Certiorari filed with this Court is frivolous and simply inaccurate, and should be denied, with damages awarded to Respondents for having to respond. It is initially inaccurate because it claims that the courts below made an evidentiary finding that they did *not* make. That "missing" fact finding is the linchpin of Petitioner's whole argument.

Petitioner raises no question in the Petition that the lower courts erred in not making the requisite fact finding. This should preclude consideration of that question under Supreme Court Rule 21.1(a).

If the evidentiary question had been raised, the district court properly excluded the evidence in question and was properly affirmed. This is because releasing a claim in a Settlement Agreement precludes subsequent reassertion of that claim to support another theory of recovery.

Even if the evidentiary question had been resolved as Petitioner desired, the whole line of argument Petitioner advances is still in the teeth of both the controlling statutory language and well-settled decisional law. Transfer of copyright derivative work rights may be "implied" or accomplished by operation of law, which specifically



includes the necessary operation of a release given in a Settlement Agreement.

Consequently, there is no matter present in this case upon which this Court traditionally exercises its discretion to review on writ of certiorari under Supreme Court Rule 17.1. The courts below properly relied upon well-settled law. Respondents should not be put to further expense in this case beyond the expenditures Petitioner has already unreasonably imposed upon them.

Finally, in light of (a) the total and repeated inaccuracy of the Petition; (b) the attempt to present a legal issue to the Court without the requisite evidentiary predicate; (c) the total lack of any grounds to seek review by this Court; (d) the assertion that review should be had because the decision below supposedly conflicts with a prior decision from the same Circuit, in the face of not one member of that court even requesting a poll on Petitioner's suggestion for rehearing *en banc*; and (e) the tremendous expense Petitioner has already imposed on Respondents through the perpetual reassertion of its frivolous "derivative work" argument throughout this case, it would be difficult to find a more deserving instance than this one for the award of damages under Supreme Court Rule 49.2.

## ARGUMENT

### A. Inaccurate Petition.

Supreme Court Rule 21.5 states in pertinent part:

The failure of a petitioner to present with accuracy . . . and clearness whatever is essential to a ready and adequate understanding of the points

requiring consideration will be a sufficient reason for denying his petition.

Under this Rule, the Petition in this instance should be denied. Petitioner ("SDP") states the question this case presents to this Court as being an erroneous holding "that a party licensed to reproduce a copyrighted work has the right to prepare and publish a derivative work absent authorization to do so" (Petition at i). Of course, neither court below made any such holding. Nor does SDP cite this Court to a record reference for that ridiculous proposition ever being espoused.

This case does not involve licensing. It involves a *Settlement Agreement*, a copy of which is Appendix F to the Petition. That Agreement contains *no* licensing language whatsoever. Rather, *SDP simply agreed therein to release whatever claims it had* (Appendix F-6, ¶6), one of which was for alleged copyright infringement (Appendix C-4). Thus, the claim that there was SDP material in the pc I computer program itself was released. There obviously, then, was no reason for any sort of licensing arrangement. Consequently, SDP's "question" is simply blatant misstatement of the record and the lower courts' holdings.

#### **B. No Question Presented as to Fact Finding.**

SDP postures its Petition as one advancing a question of law, i.e., does a license as to one right, that to reproduce, necessarily carry with it another right, that to produce a derivative work. However, that is not the question in this case. Instead, there was a *question of fact* resolved against it that SDP does *not* seek to have

reviewed. That question is, *was the pc I computer program in issue a derivative work* of the SDP computer program? SDP blatantly misstates what the lower courts held, in an effort to bypass that critical prerequisite to its “legal” question. SDP states:

[B]oth District and Appellate Courts were convinced that part of what was claimed by Petitioner to be misappropriated prior to settlement *was carried forward* in Respondents’ post-settlement Enhanced-pcI. App. C at 9; App. A at 7.

Petition at 13. What the district court *actually* held on that page was “the settlement agreement *bars any claim* of misappropriation which occurred prior to the date of the settlement agreement” (emphasis added).

SDP even previously admits the lack of evidence that any of its material was “carried forward”: “[N]o evidence was allowed to show that Petitioner’s underlying work was included as part of Respondents’ system.” Petition at 7. Apparently SDP has no qualms about taking whatever position seems advantageous at the moment. There is no question raised as to the failure to find that pc I was a derivative work. Thus, the consequent legal question of rights to “prepare and publish” such a non-existent work is precluded.

### **C. Settlement Bars Derivative Work Contention.**

Even had SDP actually presented the evidentiary question to this Court, no meritorious issue would have been raised. SDP advanced a copyright infringement claim against Respondents back in 1983 (Appendix C-9). Respondents denied that claim (*id.*), and SDP *chose to*

*settle* that contention by *releasing* it (Appendix C-8-11; Appendix F). SDP lost on its initial court claim that any subsequent use of the pc I product violated SDP's copyright (Appendix C-8-11, -14). Then SDP "switched horses" and contended that any later modification of the pc I product following the Settlement transformed that product into a derivative work because pc I at the time of Settlement allegedly contained copyrighted SDP material. Specifically SDP claimed:

It is the work that was copied from QS/1 *at time of settlement* that was in pc I. And then using that as a pre-existing work and adding to it. That is what we complain about.

Appendix D-16 (emphasis added).

Clearly, in order to prevail on this derivative work contention, SDP would have had to establish the validity of the claim it chose to release, i.e., that pc I "at time of settlement" contained copyrighted SDP material. There certainly was no reviewable error in following time-honored settlement law to reject that spurious contention. The case law is clear that if there has been a release as to all conduct in an initial controversy, this bars reassertion of any aspect of that conduct as an element for any new claim. The settlement thus bars the new cause of action as well as any cause of action specifically referenced in the agreement. *See, e.g., Ingram Corp. v. J. Ray McDermott & Co.*, 698 F.2d 1295, 1311 (5th Cir. 1983) (later antitrust claim could not be advanced based on the same conduct which was covered by a release in an earlier breach of contract dispute).

#### D. Derivative License Implied by Law.

A troubling aspect of SDP's Petition is its misstatement of the law. SDP suggests to this Court that the Fourth Circuit's ostensible holding of an "implied license" to make derivative works is in conflict with prior case law. (In fact, however, the courts below *did not get to that legal issue*, as the prerequisite factual finding of a "derivative work" was never made.) SDP actually suggests that there can never be an implied grant or license to make a derivative work. It argues:

A written instrument of conveyance is required by Statute to transfer from the copyright owner *the particular right to make derivative works*.

Petition at 8 (emphasis added). However, there is actually no such "special distinction" as to derivative works. SDP's contention has never been adopted by any court.

In fact, even the cases SDP cites hold contrary to SDP's contention. In *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984), the Ninth Circuit clearly held that a license to make a derivative work can be implied by law:

The manuscript and the book are both derivative works based on the articles. . . .

We conclude that Oddo, by preparing a manuscript based on his preexisting articles as part of his partnership duties, *impliedly* gave the partnership a license to use the articles insofar as they were incorporated in the manuscript. . . .

*Id.* at 634 (emphasis added). Similarly, *Apple Computer, Inc. v. Microsoft Corp.*, 709 F. Supp. 925 (N.D. Cal.),

*further proceeding*, 717 F. Supp. 1428 (N.C. Cal. 1989), which actually involved a settlement agreement, held:

Had Apple's narrow provision been dropped without a substitute restriction, it would be reasonable to interpret the agreement as giving Microsoft a *blanket license to develop future Windows programs*.

*Id.*, 709 F. Supp. at 928 (emphasis added). Where there is a *total release*, as in the instant case (Appendix F-6, ¶6), the law *implies a blanket license* to make *derivative works* in order to effectuate the parties' agreement. Far from conflicting with the courts below, then, the decisions SDP cites to this Court can only validate the lower courts in the instant proceeding. *Accord*, 17 U.S.C. § 201(d) ("or by operation of law").

#### **E. No Grounds for Supreme Court Review.**

The foregoing discussion demonstrates that SDP cannot make the kind of showing required before this Court should exercise its discretion to review a case on certiorari. The only supposed basis SDP suggests in that regard under Supreme Court Rule 17.1 is that there is a conflict among the federal courts of appeals on the matter. However, the prior decisions from the Ninth Circuit that SDP cites actually *endorse* the position that SDP contends the Fourth Circuit reached in this case (a point which in fact *was never even reached* due to the Settlement's evidentiary preclusion). As to SDP's suggestion of conflict within the Fourth Circuit itself, it is quite telling that when SDP suggested rehearing *en banc* below on this very same basis, "*no member of this Court or the panel requested a poll on the suggestion for rehearing in*

*banc*." Appendix E-1-2 (emphasis added). Apparently the perceived conflict is only in the mind of SDP. To say the least, there are no "special and important reasons" that this Court should grant the Petition, simply to reaffirm undisputed law. Supreme Court Rule 17.1.

### **F. Good Grounds for Award of Damages.**

The Petition in the instant case is the epitome of the "frivolous" variety as to which this Court should award respondents "appropriate damages" under Supreme Court Rule 49.2. It misstates the question that this case supposedly presents. It misstates the lower courts' findings and holdings. It avoids presentation of the necessary evidentiary question, the absence of which precludes consideration of the asserted legal issue. It misstates the holdings of other cases in order to suggest conflicting Circuit decisions. It presents no grounds for granting a petition for certiorari review. It has imposed substantial expense on Respondents, apparently to maintain the "spectre" of this litigation over Respondents and to "cloud" their product to the last possible moment. All the while, SDP knows full well the total lack of legal basis for the arguments advanced. Respondents respectfully request such damages as the Court finds appropriate, including their reasonable attorneys' fees for preparation of this Brief.

### **CONCLUSION**

Respondents (under Supreme Court Rule 28.1, none of the corporate Respondents have parent, subsidiary, or affiliated corporations) respectfully pray that the Petition for Writ of Certiorari filed by Petitioner SDP in this

case be denied, and that Respondents be awarded their damages under Supreme Court Rule 49.2.

### APPEARANCE OF COUNSEL

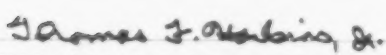
Respondents' Counsel hereby make their appearance, same being MACK ED SWINDLE, Counsel of Record and a member of the Bar of this Honorable Court, and THOMAS F. HARKINS, JR., a member of the Bar of the State of Texas, both from the firm of GANDY MICHENER SWINDLE WHITAKER & PRATT.

Respectfully submitted,

GANDY MICHENER  
SWINDLE WHITAKER  
& PRATT

By: 

MACK ED SWINDLE  
Counsel of Record

By:   
THOMAS F. HARKINS, JR.

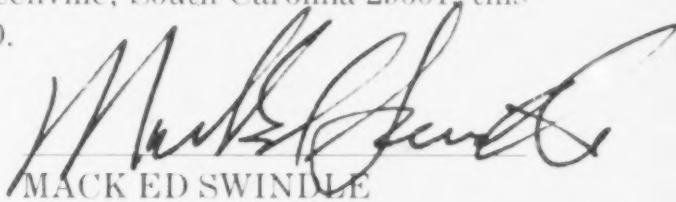
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that three (3) true and correct copies of the foregoing Respondents' Brief in Opposition to Petition for Writ of Certiorari have been served by certified mail, return receipt requested, upon Counsel of Record for Petitioner, RALPH BAILEY, addressed to his post office address at BAILEY & HARDAWAY, 125 Broadus Avenue, Greenville, South Carolina 29601, this 10th day of May, 1990.

A handwritten signature in dark ink, appearing to read "Mack Ed Swindle", is written over a horizontal line.

MACK ED SWINDLE

(Counsel of Record, and a  
Member of the Bar of this  
Honorable Court)